

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 ISO-00 CIAE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05
SAM-01 COME-00 EB-07 LAB-04 SIL-01 /082 W
-----271929Z 002607 /44

R 271748Z DEC 76
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 9645
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION NATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
AMEMBASSY BRASILIA

C O N F I D E N T I A L LISBON 8859

E.O. 11652: XGDS-4
TAGS: EFIN, EAID, PFOR, PINT, PO
SUBJECT: CONVERSATION WITH PRIME MINISTER MARIO SOARES

1. PRIME MINISTER SOARES INVITED ME TO LUNCH TODAY
DEC 27 TO DISCUSS: (1) NEGOTIATIONS WITH USG ON THREE-
STEP ECONOMIC PROGRAM; (2) RESULTS OF HIS VISIT TO
BRAZIL; AND (3) POLITICAL SITUATION AS IT RELATES TO
ASSEMBLY APPROVAL OF ECONOMIC PLAN AND BUDGET.

2. ECONOMIC PROGRAM: SOARES' VIEWS ON URGENCY AND
IMPORTANCE OF CONCLUDING \$300 MILLION LOAN AND MOVING
ON TO BROADER ASPECTS OF PROGRAM HAVE BEEN REPORTED
SEVERAL TIMES TO DEPT. I WILL NOT REPEAT THEM HERE
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EXCEPT TO MENTION THAT SOARES WAS WORRIED OVER FAILURE
OF FINANCE MINISTER'S VISIT TO WASHINGTON TO RESULT IN
AGREEMENT. HE AGAIN MADE STRONG APPEAL THAT USG BE
MORE FLEXIBLE ON GOLD. I INFORMED HIM OF IMPENDING YEO
VISIT AND HE SAID HE WOULD LOOK FORWARD TO PERSONAL
DISCUSSIONS WITH UNDER SECRETARY.

3. BRAZIL: SOARES SEEMED RELATIVELY PLEASED WITH HIS BRAZILIAN VISIT, AND SAID HE HAD A PARTICULARLY GOOD IMPRESSION OF GEISEL. HE THOUGHT GEISEL WAS SEEKING A WAY TO OPEN UP BRAZILIAN POLITICAL PROCESS AND THAT SYMBOLISM OF VISIT HAD BEEN USEFUL IN THIS RESPECT.

SOARES RECEIVED A NUMBER OF QUESTIONS ON HOW DEMOCRATIC FORCES HAD MANAGED TO ROLL BACK COMMUNISM IN PORTUGAL WITHOUT USING REPRESSIVE TACTICS. HE SEEMED PARTICULARLY PLEASED WITH THE RESULTS OF A MEETING OF DEFENSE MINISTER FIRMINO MIGUEL WITH BRAZILIAN MILITARY IN WHICH MIGUEL HAD OUTLINED THE CONSTRUCTIVE ROLE PLAYED BY DEMOCRATIC MILITARY FORCES IN THE LAST TWO YEARS IN PORTUGAL.

4. INTERNAL POLITICS: SOARES GAVE ME A RUNDOWN ON THE CURRENT STRATEGY OF EACH OF THE THREE OPPOSITION PARTIES AS HE SEES IT. THE CDS, HE SAID, HAD TOLD PRESIDENT EANES THEIR READING OF THE ELECTION WAS THAT THE MOMENT WAS NOT RIGHT TO TRY TO BRING DOWN THE GOVERNMENT SINCE THE PEOPLE WERE RELATIVELY SATISFIED WITH THE SOCIALIST GOVERNMENT. THE PSD/PPD HAD TAKEN PRECISELY THE OPPOSITE POSITION. THEY HAD BROUGHT PRESSURE ON EANES TO FORCE A MODIFICATION OF THE GOVERNMENT. THEY ARGUED IN FAVOR OF EITHER (A) A COALITION BETWEEN THE PS AND PPD OR (B) A "NON-PARTY" GOVERNMENT HEADED BY A MILITARY FIGURE. EANES HAD RESPONDED IN THE FIRST INSTANCE THAT A COALITION REQUIRED A WILLINGNESS ON THE PART OF BOTH PARTIES TO PARTICIPATE, AND THE PS WAS UNWILLING TO ENTER SUCH A COALITION. (SOARES REPEATED TO ME THE REASONS HE STILL FELT HE COULD NOT FORM A COALITION WITHOUT

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JEOPARDIZING HIS LABOR SUPPORT.) AS FOR THE SECOND ALTERNATIVE PROPOSED BY THE PSD/PPD, EANES HAD RESPONDED THAT THIS WOULD BE A STEP BACK IN THE DEMOCRATIC PROCESS. SOARES SAID EANES HAD INFORMED HIM OF HIS CONVERSATION WITH THE PSD/PPD AND HAD EXPRESSED HIS CONTINUED CONFIDENCE IN THE SOCIALIST GOVERNMENT. EANES HAD TOLD SOARES THAT EVEN IF THE SOCIALISTS WERE TO LOSE IN THE ASSEMBLY ON THE BUDGET HE WOULD NOT CONSIDER THIS A MAJOR CRISIS.

5. COMMUNISTS: SOARES SAID THE PCP WAS INTENSIFYING ITS EFFORTS TO MAKE A DEAL WITH THE GOVERNMENT. THEY SAID THAT IF THE GOVERNMENT WOULD ALLOW THEM SIX MONTHS TO RENDER ACCOUNTS ON THE ACTIVITIES OF THE PCP COOPERATIVES IN THE ALENTEJO (LISBON 8406), THEY WOULD SUPPORT THE GOVERNMENT ON THE BUDGET IN RETURN. SOARES SAID HE HAD REFUSED THIS OFFER AND INTENDED TO CONTINUE HIS OFFENSIVE AGAINST THE PCP IN THE ALENTEJO.

6. LABOR: SOARES ADMITTED THAT THE GOVERNMENT DID NOT FUNCTION AS EFFECTIVELY AS IT MIGHT, BUT HE MAINTAINED THAT MAJOR PROGRESS WAS BEING MADE ON THREE VITAL, BUT DIFFICULT FRONTS: (1) IN THE ALENTEJO WHERE THE PCP WAS VERY MUCH ON THE DEFENSIVE; (2) IN DEVELOPING STRONGER LINKS WITH EUROPE; AND (3) IN BREAKING THE COMMUNIST VISE-LIKE GRIP ON LABOR. HE ADMITTED THAT PROGRESS HAD BEEN SLOW IN THE LABOR AREA AND THAT THE SOCIALISTS WERE STILL PLAGUED BY THEIR "TROTSKY-ITE" LEFT WING AS WAS THE CASE IN THE ELECTION OF THE CIVIL SERVICE UNION WHERE THE LEFT WING, CONTRARY TO HIS ADVICE, HAD REFUSED TO ENTER INTO A COALITION WITH THE PSD (LISBON 8735). HOWEVER LEFT-WING DISSIDENCE AT THE RECENT SOCIALIST PARTY CONGRESS HAD NOT ONLY NOT HURT THE SOCIALISTS BUT HAD ACTUALLY STRENGTHENED SOARES' HAND: HE WAS NOW ABLE TO LAY THE GROUNDWORK FOR THE CREATION OF A SEPARATE LABOR UNION CONFEDERATION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, DIPLOMATIC DISCUSSIONS, VISITS, POLITICAL SITUATION, ECONOMIC PROGRAMS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LISBON08859
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X4
Errors: N/A
Film Number: D760473-0197
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761213/aaaaakvz.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by BoyleJA>; APPROVED <12 AUG 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CONVERSATION WITH PRIME MINISTER MARIO SOARES
TAGS: EFIN, EAID, PFOR, PINT, PO, US, (SOARES, MARIO), (CARLUCCI, FRANK C)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006